

SILICON VALLEY'S HOUSING COSTS IN 2010 AND ITS IMPACT ON LAW
ENFORCEMENT EMPLOYEE RETENTION

Article

California Commission on
Peace Officer Standards and Training

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Command College Class XXX

Sacramento, California

June 2001

30-0601

This Command College project is a FUTURES study of a particular emerging issue in law enforcement. Its purpose is NOT to predict the future, but rather to project a number of possible scenarios for strategic planning consideration.

Defining the future differs from analyzing the past because the future has not yet happened. In this project, useful alternatives have been formulated systematically so that the planner can respond to a range of possible future environments.

Managing the future means influencing the future, creating it, constraining it, adapting to it. A futures study points the way.

The views and conclusions expressed in the Command College project are those of the author and are not necessarily those of the Commission on Peace Officer Standards and Training (POST).

The American Dream In Jeopardy

Many believe that the current state of the United States' economy is attributable in part to the booming economy in the San Francisco Bay Area that includes the geographic area known as Silicon Valley. Silicon Valley's growth and prosperity is the direct result of its leadership role in the technology field and it continues to attract some of the best and most innovative people from around the world to seek employment opportunities and to reside. While this area has a unique concentration of people, high technology corporations, and is fertile ground for the development of new ideas, its success has also created a unique challenge.

As a manager in a Silicon Valley law enforcement agency, I have experienced the impact of the housing market upon my subordinates. As a realtor working with first-time homebuyers, some of those police officers, I have first-hand knowledge of the difficulty entering the Silicon Valley housing market. I understand the difficulty facing law enforcement agencies in regards to the housing market, and why police officers are tempted to purchase homes substantial distances from the workplace and become multi-hour commuters.

Despite increases in compensation packages, the booming economy and the skyrocketing cost of housing within the Silicon Valley has made the dream of homeownership difficult if not impossible for law enforcement officers. To assist officers in the purchase of homes and still allow them to financially plan for a quality lifestyle. Innovative programs must be developed and implemented in a timely manner.

The cost of housing in the Silicon Valley is not an isolated problem. Other regions within the United States also are experiencing the unique challenges that relate to

expensive housing. For example, in the Manhattan area of New York State and in the beach communities of Southern California, the median price for single-family homes spans from \$800,000 to \$1,100,000.¹

The success of Silicon Valley corporations and the desire to reside in the San Francisco Bay Area has pushed the price of simple homes to an unachievable level for many prospective homebuyers. Bay Area housing production has not kept pace with the number of new jobs in the region, creating one of the least affordable housing markets in the nation. This in turn has caused a crisis in housing affordability for low and moderate income Bay Area residents. The current economic expansion in the Silicon Valley region is frequently seen as more of a curse than a blessing for low-wage earners.

The Bay Area's burgeoning economy has produced more jobs than housing units, particularly in job-rich communities. Between 1995 and 2020, the rate of job growth in Silicon Valley is projected to more than double the increase in the number of households (36% versus 17%).² Consequently, the cost of buying or renting a place to live in the region has soared. Given the amount, location, and type of units being planned, the region's housing costs are expected to remain among the highest in the nation. In 1993 (the most recent year for which data is available), Santa Clara County and the San Francisco-Oakland metropolitan area ranked eighth among the country's worst housing markets based on the ratio of low-income renters to low-income units.³

While jobs in the Silicon Valley are abundant and law enforcement agencies are competing to hire qualified applicants, affordable housing is not. People are migrating to places where real estate prices are considerably lower, and traveling longer distances to

get to work. This housing-jobs mismatch has already begun to have a significant impact on the entire Bay Area.

The overall conditions for purchasing a home throughout the nation are favorable. Since 1994, the national rate of homeownership has risen to a record level of 65.4%.⁴ This boom can be explained by the fact that employment is at a thirty-year high, home price inflation in most places has been kept to a minimum, and financing terms are compelling. At a national level, all of the factors have helped moderate-income homebuyers purchase their first homes. But things are not so favorable in the San Francisco Bay Area. The percentage of families who can afford to purchase a home in these Silicon Valley regions are significantly lower than in other areas in the nation.

Anyone who works or lives in the Silicon Valley knows that housing prices in this area are high and climbing higher. Silicon Valley housing prices are among the highest in the United States. An average single-family home costs \$617,000 as of May 2000, an increase of eighty-seven percent from just five years ago.⁵ Almost on a daily basis, the media addresses the housing shortage and lack of affordable housing in Silicon Valley where a relatively modest home may cost \$550,000 and a fixer-upper can run \$450,000.

Home prices are particularly challenging for first time homebuyers who do not have any existing equity in a Silicon Valley home to transfer into the purchase of a new home. Families with the Silicon Valley median income of \$87,000 can only afford 14.4% of the available homes on the market.⁶

Many newcomers to the Silicon Valley have difficulty coming up with enough salary to cover a large mortgage payment or with enough cash to pay down the mortgage. As a result, many workers are opting to commute long distances to find a

house they can afford. It is not unusual for someone working in Silicon Valley to live in eastern Contra Costa County where the median price of homes ranges between \$150,000 and \$170,000, or in the San Joaquin Valley where new homes are as low as \$100,000.⁷ The temptation to purchase one of these homes has led to daily commutes measured in hours, not minutes.

Land supply is one of the primary causes of the problem. Without housing sites, there can be no development, regardless of demand. Housing yield is an important concept to understanding the implications of land supply. This involves regulatory and market conditions which dictate the number of housing units that can occupy a piece of land. Many cities in the Silicon Valley have adopted urban growth boundaries to prevent sprawl and to protect the remaining open space. A significant portion of that development is planned in areas distant from those earmarked for commercial/industrial development.

During the past five years, job growth in Silicon Valley has been remarkable. More than 220,000 jobs have been added to the region since 1995 and between 15,000 and 20,000 new jobs are anticipated in the year of 2000 alone. By 2010, another 183,000 new jobs are forecasted.⁸

Between 1995 and 2020, there is projected to be a thirty-six percent increase in the number of jobs in the Silicon Valley, which is more than double the increase in the number of homes (seventeen percent).⁹ The scarcity of homes near Silicon Valley job centers will continue a negative effect on the region's housing market and transportation systems. In the next two decades, housing prices near job centers will rise even further.

So too will the congestion on freeways connecting Silicon Valley with the counties outside of the region which will adversely affect employee commuting into the area.

Households earning less than fifty percent of area median (those who use at least half their income to pay for housing) depend upon the rental market for housing. Rentals in the Silicon Valley increased 32.4% over the past year. They have increased more than sixty percent in the past five years in Santa Clara and San Mateo Counties, which has outpaced even the most generous salary increases. This rate is three times greater than rental markets outside of the Silicon Valley. Demand for rental housing is what is pushing the market so high, complicated by an apartment vacancy rate of less than one percent.¹⁰ These escalating rents are also making it harder for workers to save for a down payment.

It is difficult to find a rental unit regardless of the price range. The City of Sunnyvale, California, which has twenty percent of Santa Clara County's rental stock, recently reported an apartment vacancy rate of 0.3 percent and experienced a twenty-five percent increase in rents from January to June of 2000.¹¹ That equates to an increase in rent of \$500 to \$800 per month over a six-month period. These households face not only the burden of rent, but in some cases they are forced to live in seriously substandard units. For households earning less than thirty percent of area median income, the predicament is even worse; most live in poor housing and pay more than half of their income on rent.

Many of the law enforcement agencies in the Silicon Valley serve some of the most expensive housing markets in the nation. The managers of those agencies have

begrudgingly acknowledged that few if any of their officers are likely to reside within the communities in which they are employed.

As the commute distances expand and the commuting experience becomes less tolerable, officers start looking at law enforcement agencies closer to where they can, or already did, purchase a home. Silicon Valley agencies are losing experienced officers who simply cannot afford to purchase or remain in a home in the area to agencies in more affordable communities.

A profound example of the housing problem in the Silicon Valley presented itself in November 2000. The Mayor of the City of San Carlos (located in southern San Mateo County) announced he was stepping down from his council post and moving to the Sacramento Area because he, a high-tech worker in the prosperous Silicon Valley, could not afford to purchase a home in the City where he was elected to serve.¹²

The loss of officers looking for affordable housing impacts Silicon Valley law enforcement agencies in a number of ways. The increased demand upon managers to recruit and train qualified replacement officers is not only a significant challenge, it is also a very expensive process. Additionally, as more officers leave the Silicon Valley to find affordable housing, the median age of the men and women serving the communities as police officers is declining. The level of officer maturity and experience is impacted as well as commitment to community service.

Addressing the Problem

Several communities in Santa Clara County have started to provide housing assistance to teachers. The Santa Clara Unified School district has created a mortgage assistance fund for teachers which pays \$500 per month toward each eligible teacher's

mortgage for five years. In addition, a forty-unit below market rate apartment complex is being constructed. In the City of San Jose, teachers can receive up to \$40,000 to assist in the purchase of a home within the City.¹³

Three cities in San Mateo County have developed first-time homeowner assistance programs for all of their full-time employees, not only sworn officers. The development of these programs is a testimonial to the severe housing affordability problem in the Silicon Valley. The three programs require that purchases be made within the city limits, which are all located within very expensive housing markets.

Even though the \$100,000 loan offered by each of these cities at a reduced or zero interest rate sounds generous, in fact it only provides marginal assistance. Most employees interested in purchasing a home still have difficulty qualifying for a loan even with the assistance of their employer.

Each of the programs designed to assist public safety employees fall short of actually solving the retention problem and the assistance is marginal at best. In fact, even with the assistance, most of the employees cannot qualify to purchase a home due to the maximum income limits established by HUD (Housing and Urban Development) and adopted by the cities. In 2000, a household income limit of \$62,950 for a single person or \$71,900 for a two-person household disqualifies most employees from taking advantage of the programs.

The goal for law enforcement leaders is to develop a practical and fiscally responsible first time homebuyer's program for police officers that can be easily applied and managed to help curb the loss of law enforcement officers who leave due to the lack of affordable housing.

Adopting a housing assistance purchase program is a significant undertaking for any governmental agency, especially if it encumbers taxpayer funds for many years. This is true even if the goal of the program is not to make money, but rather to save money in the form of reduced recruiting and training expenses. Most importantly, the purpose of the program is to maintain an effective law enforcement workforce. It is important to realize that we are not facing a simple case of employee turnover, but rather, there is a very real possibility that career tenured law enforcement officers may soon become a thing of the past within regions such as Silicon Valley and it is the high cost of housing which is the most significant factor causing this to happen.

Turning to the Community for Help

Developing a program to enhance employee recruitment and retention efforts by providing financial assistance to purchase a home must become a goal for all Silicon Valley law enforcement agencies. The focus of such a program is to bridge the gap between what an officer can afford and the median price of homes either in the same community in which the officer works or within a reasonable proximity. It is intended to encourage long-term employment commitments to the city by the officers.

How to obtain the funding to support such a program is the largest challenge facing the adoption of an innovative housing assistance program. City reserves are a limited resource in most cases that can provide only marginal assistance. Therefore, to create a very sound program, the funding must come from alternative sources.

The success of the Silicon Valley is primarily responsible for the exorbitant price of housing in the area. The theory of supply versus demand and the considerable money in the region chasing too few homes has led to the skyrocketing prices. Ironically, these

same individuals who have benefited from the success of Silicon Valley may be the most likely source to assist with funding of a housing assistance program for law enforcement officers. Such a program would be called the Law Enforcement Officers Assistance Fund (LEOF). Specifically, this would be a fund in which individuals and organizations could make tax-deductible donations directed towards officer retention efforts.

The LEOF should be governed by a Board of Directors that meets regularly to oversee the program and administer the distribution of funds in the form of housing loans. The Board will consist of members who live or work in the community and who are committed to public service. Ideally, these individuals will be experienced in the management of venture capital. The Board will direct fundraising activities targeting those who reside within the community and businesses that operate within the geographic area of the municipality.

Every year, the Board shall oversee the investment of contributions into venture capital. As the investment matures, the principal will be retained by the Board for reinvestment in future years. Profits from the investments, less taxes, shall be distributed to employees who are purchasing housing in compliance with the requirements of the program.

The Board should have the discretion to change the plan or elect not to make investments. It is important to emphasize that the goal of the Board is to develop and build on a fund to assist officers and other law enforcement employees in the purchase of homes. One of the greatest strengths of a board governed venture capital fund is that risk is essentially zero for individual employees since they will not be investing any money

into the venture capital fund. The Board assumes all risk if investments are not favorable.

The returns of the LEOF are impossible to predict since they depend on market forces and the success of individual venture capital funds. Historical data suggests the possibility of higher returns, however past performance does not guarantee future returns. As an industry, venture capital has returned an average of forty-three percent a year for the past ten years. The performance of the median funds with start dates between 1986 and 1996 ranges from annual gains of eleven percent in the mid-1980s to seventy-nine percent in 1996.¹⁴

Using a conservative return assumption of twenty percent, a single annual investment of two million dollars would ultimately return \$2.3 million for distribution to participants in the form of home loans in the first four years. Using a more aggressive assumption of forty percent,¹⁵ \$5.7 million may be available during the same time period. Of course the actual returns could range from zero to even higher rates. The principal shall remain in the LEOF and earnings will be distributed in the form of loans.

Terms of the Employee Home Loan Program Include: proximity guidelines to reduce the amount of time employees commute and to decrease the off-duty response times; a minimum down payment to hedge (even marginally) against a housing market downturn; ability to qualify for the primary mortgage; loan maximums to limit the city's liability exposure and long-term financial risk and to make more loans available to more employees; and provisions to address the loan upon termination of employment.

What impact will the implementation of such a program have upon the organization and the community? Will such a program that is so very detailed, somewhat

complicated and long-term in nature, accomplish the desired goals? These are questions that must be addressed before the project is ever launched.

A Transition Management Plan is imperative to the success of any new program, particularly one such as what is being proposed which spans many years and encumbers significant funding. Many individuals or groups may be involved in the development of a program of this nature, and their participation (either active or passive) will let, help or make the change happen. The stakeholders who may be involved in a housing assistance program include the City Manager, City Council, Police Management, Police Labor Union, the Community, the Finance Director and the City Attorney. Commitment to the program from these stakeholders and the identification of relevant issues impacting the program are critical to developing an effective program.

Successful implementation of a program such as the one I have proposed requires someone or a specific group of individuals to spearhead the cause. Since the goal of a housing assistance program is officer retention, Police Management who is responsible for recruiting and retention is the most likely stakeholder to drive the effort to implement the program.

The implementation of a housing assistance program in the form of long-term housing loans aimed at the retention of law enforcement employees in any jurisdiction must be comprehensively developed and carefully managed. Any program of this nature is a long-term obligation not only for the governmental lender, but also for the employee borrower. To aid in the successful implementation of such a program with multiple year ramifications, it is important that all of the involved persons and the specific legal and ethical issues be addressed up front.

If steps are not taken promptly to address the housing problem for police officers in the Silicon Valley, the outlook for them is bleak. Demographics studies show that by 2020 the Bay Area will see its population rise from 6.5 million to almost eight million. This could lead to more serious economic and social consequences for all those who reside here, particularly for law enforcement officers.

But we need not wait for 2010 to arrive to see the consequences. Many law enforcement agencies in Silicon Valley are already suffering staffing shortages because of the lack of affordable housing, and agencies outside of the Silicon Valley are luring tenured employees with better and more economical living conditions. Looking into the future suggests that the housing affordability problem in the Silicon Valley is not one that will fade away, but rather, it is a problem that will proliferate.

The problem of affordable housing in the Silicon Valley is not one that can be solved overnight. However, individual cities can indeed impact the problem by extending programs such as a housing purchase assistance program to its law enforcement employees. This will not only benefit the individual officers, but the agencies and the communities will be better served by retaining successful and experienced law enforcement employees.

Developing a program to assist officers to purchase homes in or near the community in which they work is not only very much needed, it is the right thing to do. Law enforcement leaders must bear in mind their duty to see to the well being of their officers and they should work diligently to help them live with economic dignity.

ENDNOTES

- ¹ DataQuick Information Systems, Inc., Web site, available from <http://www.dataquick.com>
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- ³ Washington, D.C. Center on Budget and Policy Priorities, "In Search of Shelter", 1998
- ⁴ Harvard University's Joint Center for Housing Studies, "The State of the Nation's Housing", 1997.
- ⁵ DataQuick Information Systems, Inc., Web site, available from <http://www.datagquick.com>
- ⁶ First American Real Estate Solutions, Web site, available from <http://www.resvalueweb.com>
- ⁷ DataQuick Information Systems, Inc., Web site, available from <http://www.dataquick.com>
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- ¹⁰ San Jose Mercury News, "Apartment rents soar", August 25, 2000.
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